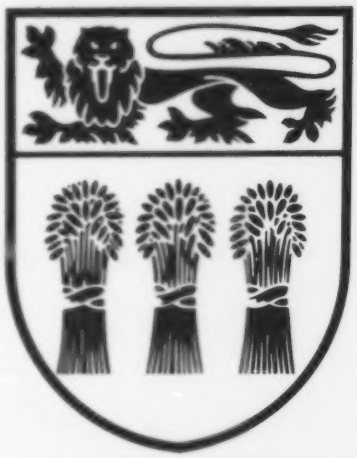
Saskatchewan Heritage Fund



ANNUAL REPORT

1990-91

Province of
Saskatchewan

Letter of Transmittal

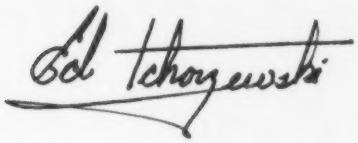
92-01684/

To Her Honour,
The Honourable Sylvia O. Fedoruk,
Lieutenant Governor of the Province of Saskatchewan

Madam:

I have the honour to submit herewith the thirteenth Annual Report and Financial Statements of the Saskatchewan Heritage Fund, for the year ended March 31, 1991.

Respectfully yours,



Ed Tchorzewski
Minister of Finance

Introduction

The Saskatchewan Heritage Fund was established in 1978 under the authority of The Heritage Fund (Saskatchewan) Act.

Objectives

The objectives of the Heritage Fund are as follows:

1. To provide Saskatchewan citizens with a clear statement of the management of their non-renewable resource revenues.
2. To provide the Legislative Assembly of Saskatchewan with greater control over the use of these non-renewable resource revenues.
3. To provide a financial mechanism through which a portion of these revenues can be invested in assets and programs for the future benefit of Saskatchewan citizens.
4. To strengthen the budgetary position of the Consolidated Fund by assisting in the financing of the ongoing programs and services provided by government.

How the Heritage Fund Works

All non-renewable resource revenues of the Province are deposited in the Heritage Fund. Also credited to the Fund, as revenues, are interest income and dividend earnings from the Fund's investments, plus any capital gains on the disposal of these investments.

Revenues of the Heritage Fund can be applied as budgetary expenditures, which are outflows of the monies taken into the Fund, or retained as assets.

The budgetary expenditures of the Heritage Fund may include:

1. The Dividend to the Consolidated Fund – to help finance expenditures of the Consolidated Fund.
2. Incentives for oil and gas exploration and development, and for conservation projects.
3. Assistance to farmers.
4. Assistance for research and development projects.
5. Provincial Development Expenditures – to help finance capital projects.

The surplus that results from an excess of budgetary revenues over budgetary expenditures remains within the Heritage Fund, increasing its total assets. These assets can take a number of forms:

1. Current assets, comprising:
   (a) the cash balance in the Heritage Fund's bank account,
   (b) marketable securities, including debentures and other marketable instruments, and
   (c) the amount "Due from the Consolidated Fund", referring to all monies held temporarily on non-interest bearing deposit with the Consolidated Fund.
2. Loans to Crown corporations or other entities.
3. Equity Investments in Crown corporations or other entities.

Divisions of the Heritage Fund

The Heritage Fund is comprised of five divisions. Three of these divisions, the Resources Division, the Energy Security Division and the Environmental Protection Division, were established in 1980. The two newest divisions, the Agricultural Division and the Research and Development Division, were created effective April 1, 1983 by The Heritage Fund (Saskatchewan) Amendment Act, 1983.

The responsibilities of each division are as follows:

1. Resources Division

The Resources Division receives all non-renewable resource revenues of the Fund that are not specifically allocated to the other divisions. Some of these revenues may be transferred to the other divisions for specific purposes.

The Resources Division finances the Consolidated Fund Dividend and Provincial Development Expenditures. This division can also undertake other expenditures and other loans and equity investments permitted under the Act that are not undertaken through the other divisions of the Heritage Fund.

2. Energy Security Division

The objective of the Energy Security Division is to help ensure that Saskatchewan consumers have adequate energy supplies in the years ahead. This division may make expenditures, loans and equity investments to encourage energy conservation and the exploration for and development of the energy resources of the province.

3. Environmental Protection Division

The Environmental Protection Division was created to provide a contingency fund for dealing with any unforeseen environmental problems that could arise from the mining and milling of uranium in Saskatchewan.

The contingency fund, known as the Environmental Protection Reserve, is comprised of cash and short-term investments. The income and other gains from these investments is applied to, and therefore serves to increase, the assets of the division.

4. Agricultural Division

The purpose of the Agricultural Division is to encourage long-term economic growth and stability in the agricultural sector. The initial task of the Agricultural Division was to assist in funding the operations of the Farm Purchase Program, providing interest rebates to farmers for commercial mortgage loans undertaken to purchase farm land.

This division also has provided refunds to farmers under the Farmers' Oil Royalty Refund Program and may make other agricultural expenditures, loans and equity investments.

5. Research and Development Division

The Research and Development Division was established to support research and development activities that will ensure that the latest technologies are adopted by Saskatchewan firms and that new, high technology industries are attracted to the province.

The Minister of Economic Diversification and Trade may make loans, equity investments and grants or other expenditures from the Research and Development Division for this purpose.

The Research and Development Division was funded initially through the transfer of $51.2 million in cash and investments from the Resources Division of the Heritage Fund.

Legislative Control

The activities of the Heritage Fund are directly controlled by the Legislative Assembly through its annual review and approval of the Fund's expenditures and long-term investments.

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Auditor's Report

To the Members of the Legislative Assembly
of Saskatchewan

I have audited the statement of financial position of the Saskatchewan Heritage Fund as at March 31, 1991 and the statements of equity, revenue and expenditure and changes in financial position for the year then ended. These financial statements are the responsibility of the Fund's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by mangement, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Fund as at March 31, 1991 and the results of its operations and the changes in its financial position for the year then ended in accordance with the accounting principles disclosed in Note 1 to the financial statements.

As described in Note 1a, these financial statements are prepared to account for only the financial transactions of the Saskatchewan Heritage Fund. Accordingly, these financial statements are not the primary financial statements of the Government of Saskatchewan because they do not account for all of the financial affairs and resources for which the Government is responsible. In my view, the primary financial statements are the "Government of the Province of Saskatchewan Combined Funds" financial statements.

W. K. Strelioff, C.A.,
Provincial Auditor.

Regina, Saskatchewan,
July 17, 1991.

Statement of Financial Position

As At March 31, 1991

(In Thousands of Dollars)

	Resources Division	Energy Security Division	Environmental Protection Division	Agricultural Division	Research and Development Division	Total 1991	Total 1990
Assets							
Schedule							
Cash and Short-Term Investments	$ —	$ 64,978	$ 10,932	$ —	$ 51,854	$ 127,764	$ 116,689
Due from the Consolidated Fund	569,835	(184,837)	—	43,605	24,935	453,538	522,169
1 Loans to Crown Entities	35,884	872	—	—	—	36,756	39,138
Loans and Sales Agreements	—	—	—	4,487	—	4,487	4,833
Investment in Crown Investments Corporation of Saskatchewan	780,637	276,620	—	—	—	1,057,257	960,757
Investment in Agricultural Land and Improvements	—	—	—	136,344	—	136,344	138,075
2 Investments — Other	—	—	—	—	1,060	1,060	2,778
Total Assets	$1,386,356	$157,633	$ 10,932	$ 184,436	$ 77,849	$1,817,206	$ 1,784,439
Liabilities and Equity							
Loan from the Consolidated Fund	$ —	$ —	$ —	$ 184,436	$ —	$ 184,436	$ 184,436
Equity	1,386,356	157,633	10,932	—	77,849	1,632,770	1,600,003
Total Liabilities and Equity	$1,386,356	$157,633	$ 10,932	$ 184,436	$ 77,849	$1,817,206	$ 1,784,439

(See Accompanying Notes)

Statement of Equity

For the Year Ended March 31, 1991

(In Thousands of Dollars)

	Resources Division	Energy Security Division	Environmental Protection Division	Agricultural Division	Research and Development Division	Total 1991	Total 1990
Unallocated Equity, Beginning of Year	**$1,368,802**	**$ 92,680**	**$ —**	**$ —**	**$ 71,468**	**$1,532,950**	$ 1,464,736
Surplus for the Year	**19,387**	**7,582**	**1,250**	**370**	**6,381**	**34,970**	77,554
Loss on Sale of Land	**—**	**—**	**—**	**(370)**	**—**	**(370)**	(232)
Loan Valuation Adjustments	**(1,833)**	**—**	**—**	**—**	**—**	**(1,833)**	(1,992)
Transfer to Reserves	**—**	**(7,607)**	**(1,250)**	**—**	**—**	**(8,857)**	(7,116)
Unallocated Equity, End of Year	**$1,386,356**	**$ 92,655**	**$ —**	**$ —**	**$ 77,849**	**$1,556,860**	$ 1,532,950
Reserves, Beginning of Year	**$ —**	**$ 57,371**	**$ 9,682**	**$ —**	**$ —**	**$ 67,053**	$ 59,937
Transfers to Reserves	**—**	**7,607**	**1,250**	**—**	**—**	**8,857**	7,116
Reserves, End of Year	**$ —**	**$ 64,978**	**$ 10,932**	**$ —**	**$ —**	**$ 75,910**	$ 67,053
Total Equity, End of Year	**$1,386,356**	**$157,633**	**$ 10,932**	**$ —**	**$ 77,849**	**$1,632,770**	$ 1,600,003

(See Accompanying Notes)

Statement of Revenue and Expenditure

For the Year Ended March 31, 1991

(In Thousands of Dollars)

	Resources Division	Energy Security Division	Environmental Protection Division	Agricultural Division	Research and Development Division	Actual 1991	Budget 1991	Actual 1990
Revenue								
Non-Renewable Resources								
Coal	$ 12,284	$ —	$ —	$ —	$ —	$ 12,284	$ 14,700	$ 13,931
Natural Gas	49,591	—	—	—	—	49,591	48,900	34,587
Oil	283,036	—	—	—	—	283,036	242,000	254,251
Potash	49,940	—	—	—	—	49,940	66,100	31,335
Uranium	19,262	—	—	—	—	19,262	20,900	15,532
Other	2,462	—	—	—	—	2,462	3,100	2,378
Total Non-Renewable Resources	$ 416,575	$ —	$ —	$ —	$ —	$ 416,575	$ 395,700	$ 352,014
Transfers from Crown Entities								
Crown Investments Corporation of Saskatchewan	$ 310,000	$ —	$ —	$ —	$ —	$ 310,000	$ 310,000	$ 275,000
Total Transfers from Crown Entities	$ 310,000	$ —	$ —	$ —	$ —	$ 310,000	$ 310,000	$ 275,000
Other Revenue								
Agricultural Lands Revenue								
Land Sales	$ —	$ —	$ —	$ 2,938	$ —	$ 2,938	$ 9,400	$ 4,964
Lease Revenue	—	—	—	11,483	—	11,483	15,400	11,564
Interest and Other	—	—	—	1,343	—	1,343	—	1,398
Interest	—	7,607	1,250	57	6,381	15,295	12,500	12,997
Other	—	—	—	—	—	—	—	5
Total Other Revenue	$ —	$ 7,607	$ 1,250	$ 15,821	$ 6,381	$ 31,059	$ 37,300	$ 30,928
Total Revenue Before Inter-Divisional Transfers	$ 726,575	$ 7,607	$ 1,250	$ 15,821	$ 6,381	$ 757,634	$ 743,000	$ 657,942
Inter-Divisional Transfers	(6,415)	—	—	6,415	—	—	—	—
Total Revenue	$ 720,160	$ 7,607	$ 1,250	$ 22,236	$ 6,381	$ 757,634	$ 743,000	$ 657,942

(See Accompanying Notes)

Statement of Revenue and Expenditure

For the Year Ended March 31, 1991

(In Thousands of Dollars)

	Resources Division	Energy Security Division	Environmental Protection Division	Agricultural Division	Research and Development Division	Actual 1991	Budget 1991	Actual 1990
Expenditure								
Dividend to Consolidated Fund	**$ 700,000**	**$ —**	**$ —**	**$ —**	**$ —**	**$ 700,000**	$ 700,000	$ 540,000
Compensation Payments for Oil Rights Acquired by the Crown	**663**	**—**	**—**	**—**	**—**	**663**	800	2,797
Interest on Refunds of Taxes	**—**	**—**	**—**	**—**	**—**	**—**	10	228
Payments for Projects Pursuant to the Canada-Saskatchewan Heavy Oil and Fossil Fuel Research, Development and Demonstration Agreement	**—**	**—**	**—**	**—**	**—**	**—**	—	400
Payments of Interest Rebates	**—**	**—**	**—**	**7,732**	**—**	**7,732**	10,230	10,559
Payments (to the Farm Purchase Program Fund) to Cover Deficiency of Land Bank Lease Fees in Meeting the Interest Costs Owing on Transferred Land Bank Land	**—**	**—**	**—**	**13,302**	**—**	**13,302**	14,050	12,323
Payments under Trust Certificates	**110**	**—**	**—**	**—**	**—**	**110**	140	104
Research Grants	**—**	**25**	**—**	**—**	**—**	**25**	25	35
Administrative Expenses of the Canada-Saskatchewan Agreements, and Other Energy Programs	**—**	**—**	**—**	**—**	**—**	**—**	—	5
Grants for Agricultural Lessees' Share of Compensation and Rental Payments for Easements and Surface Leases	**—**	**—**	**—**	**832**	**—**	**832**	650	633
Refunds Pursuant to the Farmers' Oil Royalty Refund Act	**—**	**—**	**—**	**—**	**—**	**—**	—	13,304
Total Expenditure	**$ 700,773**	**$ 25**	**$ —**	**$ 21,866**	**$ —**	**$ 722,664**	$ 725,905	$ 580,388
Surplus for the Year	**$ 19,387**	**$ 7,582**	**$ 1,250**	**$ 370**	**$ 6,381**	**$ 34,970**	$ 17,095	$ 77,554

(See Accompanying Notes)

Statement of Changes in Financial Position

For the Year ended March 31, 1991

(In Thousands of Dollars)

	Resources Division	Energy Security Division	Environmental Protection Division	Agricultural Division	Research and Development Division	Total 1991	Total 1990
Cash Requirements							
Schedule							
Operations							
Revenue	$ 720,160	$ 7,607	$ 1,250	$ 22,236	$ 6,381	$ 757,634	$ 657,942
Expenditure	700,773	25	—	21,866	—	722,664	580,388
Cash from Operations	$ 19,387	$ 7,582	$ 1,250	$ 370	$ 6,381	$ 34,970	$ 77,554
Loan, Investment and Deposits							
3 Receipts	$ —	$ 549	$ —	$ 1,761	$ 1,718	$ 4,028	$ 101,899
3 Disbursements	—	96,500	—	54	—	96,554	53,901
Cash from (used for) Loans, Investments, and Deposits	$ —	$ (95,951)	$ —	$ 1,707	$ 1,718	$ (92,526)	$ 47,998
Cash Increase (Requirement)	$ 19,387	$ (88,369)	$ 1,250	$ 2,077	$ 8,099	$ (57,556)	$ 125,552
Cash, Short-Term Investments and Due from the Consolidated Fund							
Beginning of Year	$ 550,448	$ (31,490)	$ 9,682	$ 41,528	$ 68,690	$ 638,858	$ 513,306
Cash Increase (Requirement)	19,387	(88,369)	1,250	2,077	8,099	(57,556)	125,552
Cash, Short-Term Investments and Due from the Consolidated Fund, End of Year	$ 569,835	$(119,859)	$ 10,932	$ 43,605	$ 76,789	$ 581,302	$ 638,858

(See Accompanying Notes)

Notes to the Financial Statements

For the Year Ended March 31, 1991

1. Significant Accounting Policies

1a. Reporting Entity

The Saskatchewan Heritage Fund is a special purpose fund which receives all non-renewable resource revenues and other revenues specified by legislation. Spending from the fund is appropriated by the Legislature.

1b. Basis of Accounting

The financial statements are prepared using the cash basis of accounting modified to allow for an additional 30 days to pay debts incurred in the fiscal year and to collect revenues due in the fiscal year.

The Fund's financial transactions are recorded under four categories:

Revenue

Revenue includes taxes and royalties from non-renewable resources, transfers from Crown Entities, agricultural lands revenue, and returns on investment.

Expenditure

Expenditure includes payments for goods and services, grants, and dividends paid to the Consolidated Fund.

Lending and Investing

Short-term investments are recorded at cost. Gains (losses) on disposal are recorded as revenue (expenditure).

Loans to Crown entities and unrelated parties generally have fixed terms of repayment. Loans to Crown entities are non-interest bearing.

Equity investments in Crown entities have no fixed repayment terms and are non-interest bearing. They are carried at cost. Transfers from Crown entities in respect of equity investments are recorded as revenue when received.

Where the liabilities of a Crown entity significantly exceed the estimated realizable value of its assets and the accumulated deficit is not funded by an appropriation, the loan to, or investment in, that entity will be written down directly to Equity.

Agricultural Land and Improvements are assets held for resale. When sales are made, recovery of the cost of land is recorded as recovery of the investment and gains are recorded as revenue. For sales made under long-term sales agreements, recovery of cost of land is recorded as a loan receivable and gains are recorded as revenue when collected. Losses are charged directly to Equity.

Other Investments are carried at cost.

Debt

This long-term, interest bearing loan from the Consolidated Fund was previously due from the Saskatchewan Land Bank Commission. The Farm Purchase Program Fund receives lease revenues from land formerly owned by the Saskatchewan Land Bank Commission and pays interest to the Consolidated Fund based on these lease revenues. To cover the deficiency of the lease fees in meeting the interest costs, an amount appropriated in the Saskatchewan Heritage Fund is paid to the Farm Purchase Program Fund.

2. Additional Information

2a. Equity

Equity of the Fund consists of two components: unallocated equity and reserve accounts. The reserve accounts were established pursuant to Treasury Board Directive as authorized by section 14 of *The Heritage Fund (Saskatchewan) Act.*

An Energy Security Reserve was created for funding development of energy resources. An Environmental Protection Reserve was created to provide contingency funding to mitigate unforeseen environmental problems related to uranium milling.

2b. Fund Dividend to the Consolidated Fund

An annual appropriation in the Saskatchewan Heritage Fund provides for fund dividends to the Consolidated Fund. Payments are made upon the direction of the Minister of Finance.

2c. Comparative Information

Certain of the 1990 figures have been reclassified to conform with the current year presentation; however, with regard to the expenditures, the figures are reported on the same basis as the Estimates for the prior year.

Loans to Crown Entities

Schedule 1

As at March 31, 1991

	(In Thousands of Dollars)	
	1991	1990
Resources Division		
Saskatchewan Grain Car Corporation	**$ 37,717**	$ 39,550
Less: Write-down	**1,833**	1,833
	$ 35,884	$ 37,717
Energy Security Division		
Saskatchewan Power Corporation	**$ 948**	$ 1,497
Provision for Loss	**76**	76
	$ 872	$ 1,421
Total Loans to Crown Entities	**$ 36,756**	$ 39,138

Other Investments

Schedule 2

As at March 31, 1991

	(In Thousands of Dollars)	
	1991	1990
Research and Development Division		
Federal Government Bonds	**$ —**	$ 1,037
Provincial Government Bonds	**934**	1,526
Saskatchewan Municipal Bonds	**126**	215
Total Other Investments	**$ 1,060**	$ 2,778

The market value of Long-Term Investments in bonds at March 31, 1991 is $1,034,809 (March 31, 1990, $2,681,662).

Loan, Investment and Deposit Activity

Schedule 3

For the Year Ended March 31, 1991

(In Thousands of Dollars)

	Resources Division	Energy Security Division	Environmental Protection Division	Agricultural Division	Research and Development Division	Total 1991	Total 1990
Receipts							
Loans							
Agricultural Credit Corporation of Saskatchewan	$ —	$ —	$ —	$ —	$ —	$ —	$ 50,600
Saskatchewan Property Management Corporation	—	—	—	—	—	—	47,100
Saskatchewan Power Corporation	—	**549**	—	—	—	**549**	665
Loans and Sales Agreements	—	—	—	**419**	—	**419**	548
Investments							
Agricultural Lands and Improvements	—	—	—	**1,342**	—	**1,342**	2,841
Other	—	—	—	—	**1,718**	**1,718**	145
Total Receipts	$ —	$ **549**	$ —	$ **1,761**	$ **1,718**	$ **4,028**	$ 101,899
Disbursements							
Investments							
Agricultural Lands and Improvements	$ —	$ —	$ —	$ **54**	$ —	$ **54**	$ 188
Crown Investments Corporation of Saskatchewan	—	**96,500**	—	—	—	**96,500**	53,713
Total Disbursements	$ —	$ **96,500**	$ —	$ **54**	$ —	$ **96,554**	$ 53,901
Excess of Receipts Over Disbursements (Disbursements over Receipts)	$ —	$ **(95,951)**	$ —	$ **1,707**	$ **1,718**	$ **(92,526)**	$ 47,998

(See Accompanying Notes)